PRODUCTS OF THE YEAR THE SEARS MESS WHERE TO MAKE A

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BUSH AND BUSINESS

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DECEMBER 5, 1988

FORTUNE

THE WHITE HOUSE

"I am no mystic, and my leadership will not be the most charismatic. But I'm not sure we need a lot of razzle-dazzle."

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COVER: Michael O'Neill/Outline photographed the President-elect at Washington's Old Executive Office Building.

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He will propose many domestic programs, but he won't find it easy to pay for them. Expect a congressional stalemate, then a budget compromise. *by Ann Reilly Dowd*

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"Can we retain our position as the world's premier retailer? Absolutely."

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"They're greedy bastards. Thugs in three-piece suits."

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"When you are in a knockdown, drag-out, you use whatever advantage you have."

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"People here just hold on to their money. Now they know how to enjoy life."

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"It will make developing a room-temperature superconductor look trivial by comparison."

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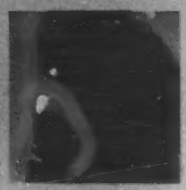

"Some of them thought I was a hooker. But then I told them I was in advertising and they talked to me."

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EDITOR'S DESK

Editor Morrison after casting her secret ballot in Manhattan

ALMOST EVERYBODY loves to bash the media—and who are we to object if you knock our competitors? The public complains that in Election Year 1988 the press has concentrated too much on the tawdry, the trendy, and the trivial and too little on the tough issues. But whatever our flaws, you can't pin that rap on FORTUNE. Since back in October 1987, we have been concentrating on the issues: where the candidates stand on them and what they mean to you. FORTUNE's vote is in nobody's pocket. Many times aides to both George Bush and Michael Dukakis commended us for coverage that they found incisive, hard-hitting, and above all fair and balanced.

Forecaster May

Our own 1988 campaign manager has been assistant managing editor Ann Morrison. She directed our coverage to the issues most relevant to our constituents—taxes, trade, takeovers, child care, Social Security, among others. Says Morrison: "We focused on the economic assumptions and the economic ramifications of the candidates' programs."

A seasoned political reporter, Morrison wrote her first campaign stories in 1960 for the St. Mary High School newspaper in Westfield, Massachusetts. As for this year's race, she says, "Neither candidate marketed himself impressively." Morrison should know: Before taking charge of our Politics & Policy section in 1985, she wrote and edited dozens of FORTUNE marketing stories.

This issue closed barely 48 hours after the results rolled in. So we started even before the election and prepared *two* cover stories. Washington-based writer Ann Reilly Dowd analyzed how George Bush will act as President—particularly on business-related issues. Meanwhile, just in case the public opinion polls were wrong, Washington bureau chief Lee Smith prepared an article on what Michael Dukakis would have wrought. As soon as the Bush victory was clear, Dowd added reporting and Morrison put the final editing touches on our detailed cover story about the President-elect (see page 40). Smith took his also-ran role gamely. Says he: "Now I know how it feels to be Vice President."

Besides examining what George Bush will do for the nation, we analyze prospects for the economy. FORTUNE is the only mass-circulation magazine that makes its own economic forecasts, based on our own economic model developed by our own staff economists. On page 55 you will find the post-election forecast of chief economist Todd May, prepared with the assistance of economists Vivian Brownstein and Maureen Allyn and reporter Lenore Schiff. Their conclusion: Expect moderate growth next year and a rise in inflation to a worrisome 5½%. We invite you to read not only our forecast but also our lips: After making a brave attempt to hold the line, George will have to raise taxes.

Marshall Loeb

MANAGING EDITOR

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WHY THE SEC LOVES THOSE TAKEOVERS

■ Little-appreciated fact: Whichever way a tender offer bounces, the SEC comes out a winner. Mandatory filing fees add millions to the federal coffers by way of a 0.02% cut the agency collects on the value of the initial offer (see table). If a suitor raises its bid, it pays nothing extra. When more than one company goes after the same target, each must pay the fee, win or lose. A suggestion: Raise the fee and take the SEC public. – Carrie Gottlieb

THE HUNTER	THE TARGET	OFFER	SEC'S TAKE
KKR	RJR Nabisco	$17,717,500,000	$3,543,518.00
Philip Morris	Kraft	$11,414,700,550	$2,282,941.71
R.H. Macy	Federated Dept. Stores	$5,270,075,000	$1,054,015.00
Grand Metropolitan	Pillsbury	$5,234,470,000	$1,046,894.00
Eastman Kodak	Sterling Drug	$5,063,071,9[illegible]	$1,012,614.39
Banc Financial Services	Farmers Group	$4,415,200,550	$883,040.11
Campeau	Federated Dept. Stores	$4,251,681,100	$850,336.22
Morgan Stanley, et al.	Fort Howard	$3,578,720,000	$715,745.80

much a company pays Russell Reynolds to do the hunting. It was never clear why the six wanted to know, but they scribbled the answers in their notebooks.

"It was an interesting situation," says Henry de Monebello, a managing director of the firm. "They were well briefed, and there were no dumb questions. The only thing that seemed to surprise them was the level of compensation for our recruits." No wonder: 70% of Russell Reynolds's captured heads in the U.S. get more than $100,000 a year. Russians make an average of $4,212 a year.

The delegation went back to Moscow without signing Reynolds to do any headhunting. A 1987 Soviet decree forbids noncitizens to hold chief executive jobs even in joint ventures with foreign companies, several of which are in the offing. **Eastman Kodak, Ford Motor, RJR Nabisco, Archer-Daniels-Midland, Chevron, Mercator,** and **Johnson & Johnson** recently formed something called the American Trade Consortium to negotiate joint ventures with the Russians.

The current freeze on foreign bosses could thaw. Says Alexander Yakovlev, a Washington-based Soviet trade deputy: "I see no reason the high-level managers must be Soviets. The U.S. is state No. 1 in the world in management. Americans have experience." – **Edward Prewitt**

USER-FRIENDLY SHOPPING CARTS

■ Can't find the ravioli? Push a couple of buttons and your shopping cart will point the way. In what just could be the most radical breakthrough in supermarket shopping since automated checkout, **Information Resources** of Chicago has developed carts with video display screens that help shoppers find what they're looking for—and flash advisories regarding the daily specials.

The company is testing its Videocart at a **Dominick's Finer Foods** supermarket in Westchester, Illinois. "The response has been excellent," says Larry Nauman, a Dominick's spokesman. The cost of the carts is covered by advertising paid for by the makers of different products. They pay $4 for every 1,000 display exposures. In addition to carrying the ads and the where-did-the-ravioli-go? feature, the videos can be switched to trivia games, a selection of recipes, or a printed local news and weather update while you wait in the checkout line.

Some bugs remain. Of the 12 carts put out on the first day, only nine made it through closing. The others were victims of software glitches. Nevertheless, Information Resources now will be testing its video carts in supermarket aisles in Chicago, Atlanta, and Los Angeles. It hopes to go national by the end of next year. – **W.E.S.**

The Szafranskis go to market.

STEVEN PUMPHREY

Gonzalez and his wife, Bertha.

BYE-BYE, MR. BANKING

■ Voters in Rhode Island have created a job opportunity for Congressman Henry Gonzalez (D-Texas). In November they bounced their 14-term Congressman Fernand St Germain in favor of his Republican challenger, and in doing so emptied the chairmanship of the House Banking Committee. Gonzalez is the likely successor. The Senate Banking Committee needs a new chairman too. Senator William Proxmire (D-Wisconsin) did not run for reelection.

Near term, this is probably good news for commercial banks—if only because it means no news of any imminent legislation that would interrupt their incursion into the securities business. St Germain was especially keen to impose such a limit. The dictatorial "Mr. Banking," as he was known, once predicted he would have restrictive banking legislation on its way "before the snows melt next year."

spots. The targets, released by hidden machines, take off in far less predictable patterns, sometimes at knee height or ground level.

"It's becoming the 'in' thing," claims Walter Neff, vice president of sales at Kidder Peabody, who just returned from an African hunting safari. Hunters like Neff enjoy sporting clays because they get an opportunity to practice in the off-season. Says Bob Davis, chairman of Houston's Dove Oil & Gas: "This is a thinking man's sport." Others enjoy it because it's challenging, bloodless, and an enjoyable way to entertain clients. – **C.G.**

PATCHY APPLAUSE FOR CASH MACHINES

■ In Iowa City students use automated teller machines to pay college tuition, transferring money to the University of Iowa's account. In Texas and Louisiana, **SouthWest Airlines** sells standby tickets through ATMs in convenience stores.

Along with shifting cash from a savings account to checking and other conveniences, these uses represent a logical progression in the proliferation of ATMs. But a recent 25-city study by Ohio-based Impact Resources shows the 70,000 ATMs in the U.S. are used far less than might be expected, even in major cities like Chicago (see table).

Reason: In Illinois and some other states, banking laws designed to protect small banks have had the side effect of limiting the number of ATMs. California has more ATMs per person than anywhere else because regulations encourage banks to build a statewide presence. Cleveland's surprisingly strong showing is probably due to an ad campaign by **Ameritrust** that encouraged the elderly, usually reluctant, to use ATMs. – **F.H.K.**

Coeds at the University of Iowa use ATMs to pay for college.

WHERE ATMs ARE USED

	% of people who are regular users	
MOST	San Francisco	34.9%
	Cleveland	34.6%
	Atlanta	29.0%
	Seattle	27.2%
LEAST	Kansas City	14.9%
	Chicago	15.7%
	St. Louis	16.9%
	Milwaukee	18.4%

WHAT TO DO ABOUT COMPUTER VIRUSES

■ Ever more fearful that a virus could invade their computer systems, U.S. companies are turning increasingly to security specialists and asking for help. Cris Castro, director of information security at **SRI International**, says the privately held Menlo Park, California, research and consulting company is getting 30 calls a day.

Hacker Morris

The sudden alarm comes in the wake of Robert Morris Jr., a 1988 Harvard graduate now studying at Cornell. His alleged invasion of the Internet computer network unleashed a virus that disrupted government and university research systems nationwide.

But hackers, as computer buffs are known, aren't the only danger to computer systems, according to Noel Matchett, president of Information Security, a private, Silver Spring, Maryland, consulting firm. He believes disgruntled employees and unscrupulous competitors present an even bigger threat.

"No computer system is foolproof," says Edward Boudreau Jr., former head of technology for John Hancock, who is now president of the company's investment advisory subsidiary. "We do spend some time agonizing over that issue."

But there are several steps companies should take to make themselves as safe as possible. Among them:

■ Change employee passwords at least several times a year and revoke them immediately after someone leaves or is fired.

■ Make copies of important files and store them in restricted safes.

■ Encode sensitive data, making it meaningless to anyone without the code.

■ Have a backup computer system on hand that would provide uninterrupted service in case of an emergency.

■ Use different computer systems for various corporate departments, separating finance from purchasing, for example.

■ Test new software and personal computers for bugs before they are distributed.

■ Restrict access to confidential information and enforce need-to-know ground rules.

■ Make sure your programmers have plugged all routes into the system to prevent outsiders from entering—as Robert Morris seems to have done. – **C.G.**

SIGNALS

■ Bermuda will probably see many more U.S. visitors doing their best to mix business with pleasure. An October tax treaty lets U.S. companies pick Bermuda for meetings and deduct the cost without having to prove to the IRS that they couldn't have done their business anywhere else—as they must for most other foreign countries. F

NOW HEAR THIS

■ **BORIS GOSTEV**, 61, minister of finance for the Soviet Union, on why he may levy new taxes on companies that let pay rise faster than productivity:
"As Keynes said, there's no more destructive power than excessive wages."

■ **RICHARD BRANSON**, 38, founder of Virgin Group, on why he is taking the British communication and entertainment company private after taking it public just two years ago:
"There's no such thing as a friendly shareholder."

■ **WILLIAM McCORMICK**, 44, chief executive of Fireman's Fund Insurance, which won't write or renew auto coverage in California after the passing of a proposition to cut rates over 20%, on the man who inspired the referendum:
"We'll tell our policyholders to call Ralph Nader."

HOW THE WORKERS RUN AVIS BETTER

Employee ownership is the best thing to happen to the No. 2 car renter in a long time. For a lot of companies it could be the key to better performance in the Nineties. ■ *by David Kirkpatrick*

A YEAR HAS PASSED since the employees bought Avis, and when Chairman Joe Vittoria isn't out pumping the troops for ideas to help improve customer service he is often fielding inquisitive calls from executives of major corporations. With 12,500 employees, Avis is the best-known company in America fully owned by an employee stock ownership plan, or ESOP. Vittoria, 53, says Avis's success with the plan has executives from "much bigger" corporations thinking seriously about creating one themselves.

It's easy to see why. As America moves toward a more service-oriented and highly leveraged economy, ESOPs seem made to order. Employee ownership has proven particularly effective in motivating workers to provide extra effort in customer service. Provisions in the tax code render debt a lighter burden on ESOP-owned companies than on conventional competitors (see box). ESOPs have been around a long time, and most own only a small percentage of a company's stock. But 1,500 companies, with 1.5 million employees, were majority-owned by ESOPs at the end of last year, and the number is growing.

Those curious corporate callers hear nothing but encouraging words from an enthusiastic Vittoria. "Believe me, the ESOP works, and it works very well," he exults, sitting in his large but spartan office at headquarters near New York's Kennedy Airport. In typically frugal Avis style, the room appears not to have been redecorated since Avis moved in 21 years ago. The tall, folksy CEO proudly reports that operating profit for the first six months of 1988 rose 35% over the same period in 1987, when Avis was owned by Wesray Capital, an investment firm that purchased it in 1986. (Operating earnings for 1987 totaled $177 million on revenues of $971 million.) By year-end Avis will have repaid about $90 million of the $650 million the ESOP buyout added to the company's debt obligation—more than double the projected repayment.

Chief Joe Vittoria gets out often to talk with fellow owners like bus driver Marcos Santiago.

"Right now Avis is on a roll," says Charles Finnie, an analyst at the Baltimore brokerage Alex. Brown & Sons, who is widely considered the country's most knowledgeable observer of the rental-car industry. "The ESOP has really improved their morale and productivity and service." Avis's share of the brutally competitive airport market, where 70% of all car rentals take place, is up a point to about 27%, and all internal measures of service quality are setting records. On-time arrivals of airport buses have risen from 93% to 96%, for example. Service-related customer complaints were rising at the time of the employee buyout but have subsequently dropped 35%, from 1,918 in the 12 months ended in August 1987 to 1,238 a year later.

The lesson from Avis is not that an ESOP is a quick fix. Says Vittoria: "Just

REPORTER ASSOCIATE *Susan Kuhn*

PHOTOGRAPH BY JONATHAN LEVINE

creating an ESOP isn't going to make you a better company. It's how you involve the employees, it's how you maintain a dialogue, listen to their input, and use it." Since the buyout, Avis has organized employee participation groups as a conduit for ideas, and everything from billing to bathrooms to baby seats is changing as a result. Corey Rosen, executive director of the National Center for Employee Ownership, a nonprofit research group in Oakland, California, applauds Avis's effort to increase employee involvement. But he is frustrated that it is still unusual. Most ESOP executives mistakenly believe employee ownership alone will boost productivity, and shun participative programs.

The center's research has found that if an ESOP-owned company allows workers to participate in decisions about their jobs, it will grow an average of 11% faster than if it doesn't. Says Rosen: "An employee comes to work and is motivated as an owner, but that motivation is useless unless there's a structure to use the ideas, experience, and knowledge he or she has. And Avis has taken all this to heart." Rosen believes employee involvement programs can be helpful in any company but are more likely to succeed with employee ownership.

Wesray Capital and senior Avis managers had bought the company, then part of Beatrice Cos., from Kohlberg Kravis Roberts & Co., the leveraged-buyout firm that controlled Beatrice. Led by Wesray Chairman Ray Chambers, the group paid $1.6 billion in July 1986 and after selling off some assets sold Avis to the ESOP for a stunning $740 million profit just over a year later. (Former Treasury Secretary William E. Simon, the WES of Wesray, withdrew from active involvement before the Avis purchase.)

IN THIS TYPE of leveraged deal, an ESOP borrows the money to buy the company, or part of it, in the name of the employees. A trustee holds the shares and is mandated to represent the interests of the eventual shareholders. As the company pays off the debt, shares are allocated to employees in proportion to their pay. Managers receive shares in the same proportion as car cleaners, but federal law restricts anyone from receiving an allocation of more than $30,000 of ESOP stock in any given year. By the end of this year, employees at Avis will own about ten shares per $1,000 of annual compensation.

Vittoria predicts that within 15 to 18 years all 24 million shares will be held by employees, who must remain at least five years for their shares to be vested. An outside appraiser appointed by the trustee values the shares annually. The current value is $5.22, which will certainly rise this year to reflect the company's impressive performance. Even after shares are awarded to an employee, the trustee holds them. When a vested employee leaves the company for any reason, the trust buys out the shares at the most recently assessed price (with the full value of the payout as taxable income to the employee).

"We're going to give a lot of people an opportunity to build a nest egg here that they would never have been able to build in their lives," says Vittoria. That's just what Louis Kelso had in mind. As the inventor of the ESOP and its indefatigable advocate, he passionately believes that capitalism will not survive unless capital ownership is more evenly distributed across the economy. He declares: "For employees of service enterprises not to have a piece of the action is almost another form of slavery."

Kelso, 74, finds it inexcusable that all leveraged buyouts don't have at least an ESOP component. He says that the first ESOP buyout he orchestrated—at Palo Alto's Peninsula Newspapers in 1956—was the first LBO. He also claims that in about 1964 he introduced LBOs to George Roberts, who was courting the niece of one of Kelso's law partners, and to Roberts's friend Jerome Kohlberg. "I taught them the art of the leveraged buyout. Now they're just using it for the wrong purposes, to make themselves and a few people richer," laments Kelso. Kohlberg and Roberts have no comment.

DESPITE Avis's success at rousing employees with the plan, they would never have become owners were it not for the generous tax benefits Kelso has won for ESOPs over the years. In the early Seventies he convinced Russell Long, then the potent chairman of the Senate Finance Committee, that employee ownership was good for the economy. Long helped write a succession of bills that aided ESOPs. Lenders to an ESOP pay taxes on only half the interest they receive and can thus charge lower rates. Avis routinely carries a huge debt in connection with its fleet of vehicles—about $1 billion at the time of the deal. The management figured a way to include that sum in the tax-favored ESOP debt. Result: The company significantly lowered its cost of doing business.

Another major concern for Vittoria was to get Avis off what he and everyone else there call its "merry-go-round" of owners,

THE TEN LARGEST ESOP-OWNED COMPANIES

COMPANY	BUSINESS	% ESOP-OWNED	ESOP BEGUN	EMPLOYEES
HealthTrust Nashville	Hospital management	100%	1987	23,000
Avis Garden City, N.Y.	Car rental	100%	1987	12,300
EPIC Healthcare Group Dallas	Hospital management	100%	1988	10,000
Amsted Industries Chicago	Diversified manufacturing	100%	1986	8,300
Avondale Industries New Orleans	Shipbuilding	60%	1985	8,000
Parsons Pasadena, Calif.	Engineering & construction	100%	1974	8,000
Weirton Steel Weirton, W.Va.	Steel manufacturing	100%	1984	8,000
Dan River Danville, Va.	Textiles	100%	1983	7,000
Austin Engineering Austin, Texas	Construction	60%	1987	6,500
Wyatt Cafeterias Dallas	Cafeterias	100%	1988	6,500

SOURCE: NATIONAL CENTER FOR EMPLOYEE OWNERSHIP

OWNERS AT WORK IN FORT LAUDERDALE

Whether they fix cars, clean them, or serve travelers at the airport, Avis employees really do seem to try harder now that they own the place. Customers have noticed the difference.

ten since it was founded in 1946 and five (Norton Simon, Esmark, Beatrice, KKR, and Wesray) in the five years before the employee buyout. Vittoria, who had been CEO of Hertz, arrived at Avis in 1982. Managing for a different owner each year had been enormously frustrating. One solution would have been taking the company public, but Vittoria worried that public ownership could have left the company vulnerable to another takeover. The first time he ever heard the term ESOP was in a meeting with Wesray investors. Other Avis executives remembered considering an ESOP back in 1977, before Norton Simon bought the company. Once it became clear that the fleet debt would qualify for the ESOP tax advantages, Wesray's partners at Avis began pushing for employee ownership.

AVIS ALREADY had a fine reputation for service, and its share of the crucial on-airport market was edging up, while Hertz's dropped from 37% to 32% between 1982 and 1987, according to Finnie of Alex. Brown. He adds that Avis also had the best operating margins among the largest rental companies. Since all of Avis's major competitors have changed hands recently and as a result increased their debt loads, that extra ESOP debt was not much of a competitive disadvantage.

The biggest surprise about employee ownership at Avis is how effective it has proven as a marketing tool. Even before the deal was complete, James Collins, Avis's vice president for sales and marketing, suggested to ad agency Backer Spielvogel Bates that the ESOP might be a good advertising hook. Backer's staff was skeptical. But when the agency commissioned a study of 1,000 typical car-rental customers it found an astonishing 77% believed that employee ownership would mean better service. Says Collins: "The number knocked our socks off."

"Employee ownership translates into an amazing halo," says Randy Hackett, Avis's account manager at Backer. The agency produced a series of television commercials and print ads showing eager workers and announcing, "Avis is the only major rent-a-car company owned by its corporate employees." A new version of the company's famous tag line announces, "We're trying harder than ever." Independent tests found the copy more effective at swaying consumers than any Avis ad Backer had ever produced. Follow-up studies conducted after the commercials began airing this spring showed a dramatic increase in favorable perceptions of Avis. Even Craig Koch, president of Hertz's North American division, a man singularly unimpressed by the new Avis, concedes, "The only advantage I see to the ESOP is that it gives them a good advertising campaign. It's something consumers will listen to."

SOME LARGE corporate customers are listening. Says Robert W. Anderson, director of corporate travel for Unisys, which splits its $15 million in annual car rentals between Avis and Hertz: "Employee ownership has got to be a winner. Avis is absolutely superior in customer service, though they were pretty good to begin with." When Westinghouse named Avis its primary car-rental supplier in April, every Avis employee in Pittsburgh, where Westinghouse is based, signed a letter to travel managers there pledging to provide the best possible service. "We were really impressed," says Betty Lou Luketich, manager of business travel. "When employees own a company there is a definite difference in their attitude. Our travelers say they have noticed."

Avis employees show a palpable enthusiasm for the changes that have come since the ESOP. Fears of pay cuts and layoffs have proven groundless, and managers no longer

HOW THE TAX CODE ENCOURAGES ESOPs

- When an ESOP borrows to buy stock, not only are the interest payments tax deductible—so are repayments of principal.
- A commercial lender may exclude from taxable income 50% of the interest earned from loans to an ESOP. Most lenders pass part of this saving on to the ESOP.
- Dividends paid on stock that is held by an ESOP can be deducted from corporate taxable income.
- Owners of privately held corporations who sell their shares to an ESOP can defer the capital gains tax if they reinvest the gains in the stock of a U.S. corporation within a year.

worry that the new owners beneath them might prove unruly and unmanageable. Though employees still hold little stock, most are impressed with the company's more open management style. Many refer with satisfaction to the advertising campaign, and a striking number tell inquiring visitors, "We're trying harder than ever."

"We feel we have closer contact with management," says Roberta Beckelman, a telecommunications specialist at Avis's Worldwide Reservations Center in Tulsa. "We're ready to voice our opinions, and we know we will be heard if we do." John Sellers, director of reservations at the Tulsa center, concurs. "In the past, people felt management couldn't really listen to their ideas because we weren't in control of our own destiny," he says. It's easier to manage now: "We've seen a reduction of lost time, and we've actually had employees coming to us asking us to tighten some of our performance standards. That would never have happened prior to the ESOP."

Even employees with gripes give the company a break. Mike Trissel, an Avis bus driver at Fort Lauderdale International Airport, is unhappy that the company insisted on bonuses rather than wage increases in recent local union negotiations. "I feel we should have at least gotten a cost-of-living raise," he says, "but I can see they have a large debt now, and they want to pay it off as soon as they can." And Trissel adds: "Everything else here is 100% positive."

Though some ESOPs exclude union members, Avis decided to make its 2,800 unionized employees owners too. "We wanted to have everybody on the same team and not create two classes of people," says human resources vice president Donald Korn. Negotiations have been a bit more cordial since the buyout. Union officials seem generally pleased with the plan, since it required no explicit concessions on their part, but several worry that Avis, like many ESOP-owned companies, may eventually try to substitute the ESOP for pension benefits. Avis says it retains the option to change pensions. The union officials say they would fight to prevent that.

Employees meet regularly (above, in Fort Lauderdale) to make worker ownership work.

Employee participation groups comprising representatives from each job category now meet at least monthly at each of Avis's company-owned locations in the U.S. (employees at the many smaller franchise locations are not included in the ESOP). Scores of valuable ideas have surfaced. A sales staffer suggested that the Avis sales force could use an internal charge card instead of American Express when renting Avis cars on the road. The switch saved the transaction fee paid to American Express as well as the concession fee Avis pays to the airport for every paid rental. Says field operations vice president Robert Salerno: "That's maybe another $30,000 or $40,000 that just went to the bottom line."

Employees don't just make suggestions—they follow up. Says Avis Fort Lauderdale district manager Dan Falvey: "In many cases people will go out on their own time and get prices on materials for some idea they've had and come back to the committee and say, 'Hey, should we do it?' And we make the decision as a group. We're not sitting there as managers and employees. We're sitting there as a group of employees in Fort Lauderdale, asking how can we provide better service." They must be coming up with good answers. Since the ESOP purchase Avis has beaten Hertz in Fort Lauderdale market share for the first time ever.

Falvey has to watch himself, though: "If I as the district manager decide to get a new carpet for the office, employees will now come up to me and say, 'Wait a minute, how much is this costing us?' They're half kidding, but the whole message of the ESOP is that you are an owner. We pay off the debt—we own a piece of this company."

Operations chief Salerno says the manager's role is changing. "This whole participation process has put a lot of burden on management to get the people involved and interact with them," he says. "So we're starting a new program for managers on how to deal with people. It takes a lot of work and pressure to instill this thing in the whole company. We don't want people to think it's today's fad, and in a month it'll be gone."

VITTORIA, Salerno, and others criss-crossed the country after the ESOP buyout, meeting face-to-face with about 7,000 employees. Top executives still meet regularly with representatives of the participation groups and circulate among employees at all levels. Vittoria says he has respected the knowledge of front-line employees ever since he started in the business in 1960, as a rental agent for Hertz in New York City. "I've always been a believer in visible management, but now I'm doing it more because it has greater value," he says. "This is not the time for management to start taking vacations. I've worked harder since this ESOP was formed than I have in many years." So have a lot of other Avis employees, it appears. They may not have imagined that this would be part of becoming capitalists, but the results are hard to argue with.